

**DEPARTMENT OF TRANSPORTATION**

OFFICE OF THE DIRECTOR  
1120 N STREET, MS-49  
SACRAMENTO, CA 95814-5680  
PHONE (916) 654-5266  
FAX (916) 654-6608  
TTY 711



*Flex your power!  
Be energy efficient!*

December 11, 2008

Dear Proposition 1B Recipient:

On December 8, 2008, the Legislature convened an unprecedented joint session of the California Legislature to hear testimony from a distinguished panel on the State's funding crisis. The panel, which included State Treasurer Bill Lockyer, State Controller John Chiang, Legislative Analyst Mac Taylor, and Department of Finance Director Mike Genest, was unanimous in its call for prompt action by the Legislature to respond to the fiscal issues confronting the State. They pointed out that the sooner the Legislature acts to resolve the budget deficit in this fiscal year and next, the better position the State will be in as it prepares to meet future challenges.

State Treasurer Lockyer specifically talked about the fact that the State is short of cash, threatening the solvency of the General Fund and the State's overall credit rating. Because our transportation bond projects are funded with General Obligation bonds, the condition of the General Fund also affects the California Department of Transportation's (Caltrans) ability to access cash to meet bond-funded project commitments. Proceeds from bond sales are deposited into the Pooled Money Investment Account (PMIA), which is then used to advance funds for capital projects statewide. The PMIA is also a source of funds for the temporary internal "borrowing" that occurs to keep State government operating. This enables the State Controller to "balance" revenues with expenditures, since most expenditures occur relatively early in the fiscal year, and most revenues are received in the second half of the fiscal year (through income taxes, for example). Normally, the PMIA is replenished through issuance of bonds throughout the year. Unfortunately, current market conditions and the lack of a balanced State budget have restricted the State's ability to sell those bonds. As a result, the cash reserve in the PMIA has dropped precipitously.

In response to the PMIA cash condition, the PMIA Board (composed of the Governor, State Treasurer, and State Controller) may decide next week to defer expenditures until bonds can be sold. If this occurs, the State may be unable to meet its funding commitments for new bond-funded projects or for bond projects that have already been awarded. We are currently evaluating the options that we may have available to mitigate these impacts through borrowing from other transportation funds, but borrowable resources are in short supply.

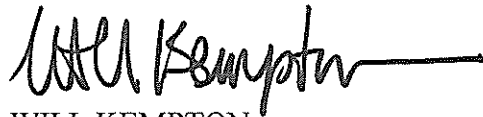
Unless the overall budget situation is resolved soon, Caltrans will have to defer the award of projects funded from Proposition 1B. Caltrans is working to develop contingency plans to keep awarded projects moving, but as a last resort, perhaps at a slower pace.

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In light of the current situation, I urge you to also consider deferring the award of projects that include Proposition 1B funds allocated by the California Transportation Commission. If you have received a Proposition 1B allocation, have already executed an agreement with Caltrans, and awarded a construction contract, we will make every effort possible to reimburse you for eligible costs as they occur.

I want to emphasize that this situation does not impact all projects. While serious, I view this as a temporary situation and we are hopeful that the Legislature will respond to this issue promptly and effectively. We will strive to keep you informed as progress is made to resolve this cash-flow issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Will Kempton", followed by a horizontal line.

WILL KEMPTON  
Director

c: Dale E. Bonner, Secretary, Business, Transportation and Housing Agency  
John Barna, Executive Director, California Transportation Commission